



DEPARTMENT OF CONSUMER AFFAIRS
 CALIFORNIA BOARD OF ACCOUNTANCY
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DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY (CBA)

MINUTES OF THE
SEPTEMBER 22, 2011
CBA MEETING

Tsakopoulos Library Galleria
 828 I Street
 Sacramento, CA 95814
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Roll Call and Call to Order.

President Sally Anderson called the meeting to order at 9:01 a.m. on Thursday, September 22, 2011 at the Tsakopoulos Library Galleria in Sacramento, California. The meeting adjourned at 3:15 p.m.

CBA Members

Sarah (Sally) Anderson, President	9:01 a.m. to 11:55 a.m.
Marshal Oldman, Vice President	9:01 a.m. to 3:15 p.m.
Leslie LaManna, Secretary-Treasurer	9:01 a.m. to 3:15 p.m.
Diana Bell	9:01 a.m. to 3:15 p.m.
Alicia Berhow	9:01 a.m. to 3:15 p.m.
Michelle Brough	Absent.
Donald Driftmier	9:01 a.m. to 3:15 p.m.
Herschel Elkins	9:01 a.m. to 3:15 p.m.
Laurence (Larry) Kaplan	9:01 a.m. to 3:15 p.m.
Louise Kirkbride	9:01 a.m. to 11:55 a.m.
Kitak (K.T.) Leung	9:01 a.m. to 3:15 p.m.
Manuel Ramirez	9:01 a.m. to 11:55 a.m.
Michael Savoy	9:01 a.m. to 3:15 p.m.
David Swartz	9:01 a.m. to 3:15 p.m.
Lenora Taylor	9:01 a.m. to 3:15 p.m.

Staff and Legal Counsel

Patti Bowers, Executive Officer
 Dan Rich, Assistant Executive Officer
 Rich Andres, Information Technology Staff

Veronica Daniel, Board Relations Analyst
Paul Fisher, Supervising Investigative CPA
Lauren Hersh, Communication and Planning Manager
Rafael Ixta, Chief, Enforcement Division
Kari O'Connor, Special Projects Analyst
Deanne Pearce, Chief, Licensing Division
Kristy Shellans, Legal Counsel, Department of Consumer Affairs (DCA)
Carl Sonne, Deputy Attorney General, Department of Justice
Matthew Stanley, Legislation/Regulation Analyst

Committee Chairs and Members

Nancy Corrigan, Chair, Peer Review Oversight Committee (PROC)
Cheryl Gerhardt, Chair, Enforcement Advisory Committee (EAC)

Other Participants

John Ams, Executive Vice President, National Society of Accountants (NSA)
Jason Fox, California Society of Certified Public Accountants (CalCPA)
Samuel Lemon, Center for Public Interest Law
Morris Miyabara, California Society of Accounting & Tax Professionals (CSATP), NSA
Pilar Onate-Quintana, KP Public Affairs
Joseph Petito, The Accountants Coalition
Jonathan Ross, KP Public Affairs
Hal Schultz, CalCPA
Jeannie Tindel, CalCPA
Donna Watson, CSATP, NSA

I. Report of the President.

A. Educational Presentation on Legislative Tracking.

Ms. Bowers introduced CBA staff member Kari O'Connor. Ms. Bowers stated that Ms. O'Connor was recently assigned to assist in the area of legislation.

Mr. Stanley provided an overview of the memorandum for this item (**see Attachment 1**).

Mr. Ramirez inquired if the Franchise Tax Board (FTB) would be covered in the search topics for tracking. Mr. Stanley confirmed the FTB would be covered under the search topic 'Tax Agencies.'

Ms. Anderson inquired if the CBA is covered under the search topics. Mr. Stanley confirmed the CBA would be covered under the search topics of 'Accountancy' and 'Licensing.'

B. Proposed Modification to 2012 CBA Meeting Calendar.

It was moved by Mr. Oldman, seconded by Ms. Berhow and carried by those present to modify the July 2012 CBA meeting to a one-day meeting on Thursday, July 26, 2012. Ms. Taylor abstained.

C. Announcement Regarding Annual Officer Elections.

Ms. Anderson stated that members who wish to be considered for a Leadership position should submit a Statement of Qualifications to the Board Relations Analyst, Veronica Daniel, by October 14, 2011.

D. Presentation of CBA Leadership's Award of Excellence.

Ms. Anderson presented Ms. Daniel with the first annual CBA Leadership's Award of Excellence.

II. Report of the Vice President.

A. Recommendations for Appointment to the Enforcement Advisory Committee (EAC).

There was no report for this item.

B. Recommendations for Appointment to the Qualifications Committee (QC).

There was no report for this item.

C. Resolution for Retiring EAC Member, Arthur Thielen.

It was moved by Mr. Ramirez, seconded by Ms. Taylor and unanimously carried by those present to adopt the resolution for retiring EAC member, Arthur Thielen.

III. Report of the Secretary/Treasurer.

A. Discussion of Governor's Budget.

B. Fiscal Year 2010-11 Year End Financial Report.

Ms. LaManna provided an overview of this item **(see Attachment 2)**.

Mr. Ramirez requested that staff provide analysis to clarify the 25 percent increase in administrative costs.

IV. Report of the Executive Officer (EO).

A. Update on Hiring Freeze Exemption Requests.

Ms. Bowers stated the CBA has an exemption request for one Investigative CPA position and one Office Technician position in review with the Department of Finance. Ms. Bowers further stated that in light of the Governor's current focus on enforcement, a letter was sent to Acting Director Stiger to request reconsideration of the CBA's previous exemption request to fill all Investigative CPA vacancies.

Mr. Ramirez acknowledged Ms. Bowers for her efforts regarding the exemption requests.

B. Update on CBA 2010-2012 Communications and Outreach Plan.

Ms. Hersh provided an overview of the memorandum for this item **(see Attachment 3)**.

Mr. Driftmier inquired whether information on professional standards is being provided through social media. Ms. Hersh stated the idea with social media is to drive people to the CBA's website to obtain such information.

Mr. Ramirez expressed concern that interested parties who have not opted-in to receive the electronic version of the UPDATE publication may not be receiving the CBA's message. Mr. Ramirez recommended the CBA send one last hard copy edition of UPDATE, indicate that it is the "last one," and provide a reminder to opt-in should they wish to continue receiving a hard copy.

Mr. Swartz suggested that the CBA consider pursuing a regulatory change to require licensees to provide email addresses. Ms. Anderson concurred and assigned this matter to the Committee on Professional Conduct for further evaluation.

Ms. Anderson concurred with Mr. Ramirez' recommendation to distribute one final paper version of the UPDATE publication and follow up a few months later with a reminder (*i.e.* postcard) to those who have not opted-in.

C. CBA 2010-2011 Annual Report.

Mr. Rich provided an overview of the memorandum for this item **(see Attachment 4)**.

Ms. Anderson inquired regarding the FISHing training. Mr. Rich stated it was teambuilding training for staff facilitated by the DCA's SOLID Training Solutions.

D. Update on Legislation Which the CBA Has Taken a Position (Assembly

Bill (AB) 431, AB 1424, Senate Bill (SB) 103, SB 306, SB 541, SB 543, SB 706, SB 773).

Mr. Stanley provided an overview of the memorandum for this item **(see Attachment 5)**.

Mr. Stanley stated that staff recommends no change of position on AB 431, AB 1424, SB 306, SB 541, SB 543, and SB 706. Mr. Stanley further stated that staff recommends the CBA discontinue following SB 103 and adopt a Neutral position on SB 773.

Mr. Ramirez inquired whether the CBA should seek legislation to incorporate the deleted disciplines from SB 773 in anticipation of the Governor's signature. Ms. Anderson stated it is best to wait on the outcome before pursuing such legislation.

Mr. Driftmier stated he is disappointed with the amendments made to SB 773; he is however, pleased that the matter is moving forward.

It was moved by Mr. Driftmier, seconded by Mr. Swartz and unanimously carried by those present to adopt a Support position on SB 773.

E. Discussion on Initiating a Rulemaking to Amend California Code of Regulations (CCR), Title 16, Section 4 – Safe Harbor.

Mr. Stanley provided an overview of the memorandum for this item **(see Attachment 6)**.

Ms. Shellans stated that regulations regarding advertising and commercial speech are risky and often struck down by various federal courts. Ms. Shellans stated the options offered by the Supreme Court stating the advertiser is "not licensed by the state," or that the "services being offered do not require a license," are acceptable. Ms. Shellans further stated that the option provided by the associations stating the advertiser "is not required to be licensed by the CBA" could be misleading as the services being provided are unknown.

Ms. Shellans recommended language to include stating "the aforementioned services do not require a license by the CBA." Ms. Shellans further stated that this language provides a scope and relationship back to the service being provided.

Mr. Ramirez stated he is in favor of the Supreme Court's first recommendation stating that the advertiser is not licensed by the CBA.

Ms. Taylor recommended incorporating both options offered by the Supreme Court.

Ms. LaManna concurred with the language proposed by the California Society of Enrolled Agents, with an amendment stating “We [I] are [am] not required to be licensed by the CBA. If reviewed, audited, or compiled financial statements are desired for greater assurance, the services of someone licensed by the CBA would be required.”

CBA members further discussed the importance of conveying a clear message to the public that not all accountants are licensed by the CBA.

It was moved by Ms. Anderson, seconded by Mr. Ramirez and unanimously carried by those present to adopt the following proposed language “We [I] are [am] not licensed nor required to be licensed by the CBA for the preparation of these financial statements. If compiled, reviewed, or audited financial statements are desired, the services of someone licensed by the CBA would be required.”

Mr. Ams, Executive Vice President of National Society of Accountants (NSA), stated the current safe harbor language is consistent with the Uniform Accountancy Act. Mr. Ams stated that there is no problem with the Supreme Court’s proposed language; however, NSA would oppose the incorporation of compilations. Mr. Swartz stated the CBA is not stating that a compilation is an attest function, but if a compilation is desired, then seek the services of a licensee. Mr. Driftmier stated that compilations are serious business and should be performed by a licensee.

It was moved by Mr. Ramirez, seconded by Ms. LaManna and unanimously carried by those present to initiate the rulemaking process to amend CCR, Title 16, Section 4 – Safe Harbor.

- F. Discussion of Report to the Financial Accounting Foundation (FAF) on Potential Revised Accounting Standards for Private Companies and a New Standard Setting Board.

Mr. Fisher provided an overview of the memorandum for this item **(see Attachment 7)**.

Ms. Bowers stated that this matter was previously addressed as a NASBA focus question; it was however, removed in order to allow states more time for deliberation. Ms. Bowers further stated the topic may resurface from NASBA with a request for feedback once the FAF issues its report.

Mr. Driftmier stated this may affect the Enforcement Unit if licensees are not up-to-date in reviewing the revised standards.

V. Report of the Licensing Chief.

A. Report on Licensing Division Activity.

Ms. Pearce provided an overview of this item **(see Attachment 8)**.

Mr. Driftmier stated that California State University Fullerton does not currently have courses on accounting ethics. Mr. Driftmier further stated that this is an example of a fairly large school with a fairly large accounting major that will be impacted by the new requirements.

Ms. Pearce stated that as part of outreach, communications will be sent to colleges and universities to make them aware of the new requirements.

Ms. Bell inquired if there were any areas of concern identified regarding the practices followed by Prometric during the site visits. Ms. Pearce stated there were no major concerns with the three sites visited. Ms. Pearce further stated that staff will pursue travel approval in order to inspect the remaining testing centers.

B. Discussion on Fingerprinting CPAs Licensed Prior to January 1998.

Ms. Pearce provided an overview of the memorandum for this item **(see Attachment 9)**.

Ms. Anderson stated that from a consumer protection standpoint, the CBA should implement the fingerprinting requirement for all licensees.

It was moved by Ms. Taylor, seconded by Ms. Bell and unanimously carried by those present to initiate the process to require fingerprinting for all licensees who do not currently have fingerprints on file with the Department of Justice (DOJ), and incorporate this requirement as a condition for renewal.

CBA members discussed the issue of why fingerprinting stopped.

Ms. Shellans discussed the previous challenges regarding proposed legislation that would require licensees to be fingerprinted. Ms. Shellans further stated that the present authority to require applicants for licensure to get fingerprinted was enacted in 1998.

Ms. Anderson requested that staff research and provide potential proposals for accomplishing the fingerprinting requirement. Ms. Anderson further stated that this matter will be assigned to the CPC.

At this time, CBA members heard Agenda Items IX.A.-IX.E. and XI.B.-XI.C. (see pages 18828-18829).

VI. Closed Session. Pursuant to Government Code Section 11126(c)(3), the CBA Will Convene Into Closed Session to Deliberate on Disciplinary Matters (Stipulations, Default Decisions, and Proposed Decisions).

CBA members convened into closed session at 2:00 p.m., and the meeting reconvened into open session at 2:28 p.m.

VII. Report of the Enforcement Chief.

A. Enforcement Case Activity and Aging Report.

B. Citation and Fine Activity Report.

C. Reportable Events Report.

Mr. Ixta provided an overview of agenda items VII.A.-VII.C.

Mr. Swartz inquired regarding the process for collection of outstanding fines. Mr. Ixta stated that the current workload in the Enforcement Unit does not allow for staff to actively pursue collections. Mr. Ixta further stated outstanding fines are added to licensees' renewal fees and are required to be paid as a condition for renewal.

D. Update on Peer Review Implementation.

Mr. Ixta provided an overview of the memorandum for this item (**see Attachment 10**).

No comments were received.

E. Annual Results from the DCA Performance Measures Report.

Mr. Ixta provided an overview of the memorandum for this item (**see Attachment 11**).

No comments were received.

VIII. Committee and Task Force Reports.

A. Enforcement Program Oversight Committee (EPOC).

There was no report for this item.

B. Committee on Professional Conduct (CPC).

There was no report for this item.

C. Legislative Committee (LC).

There was no report for this item.

D. Ethics Curriculum Committee (ECC).

Report of the August 16, 2011 ECC Meeting.

Mr. Driftmier stated that the ECC met and accepted the CBA's recommendations regarding the 10 units of ethics study. Mr. Driftmier further stated that staff stands ready to submit a regulatory package should SB 773 fail.

E. Peer Review Oversight Committee (PROC).

1. Report of the August 30, 2011 PROC Meeting.

Ms. Corrigan stated that at its August meeting, the PROC heard subcommittee reports from the oversight that was performed at AICPA Peer Review board meetings, CalCPA Report Acceptance Body (RAB) meetings, as well as peer review training sessions.

Ms. Corrigan stated that all reports were positive and a very high level of technical proficiency and professional conduct was observed.

Ms. Corrigan further stated that the PROC is working on determining the best way to relay the information and feedback received as a result of the oversight.

Ms. Corrigan stated that the PROC's draft procedural materials were presented at NASBA PROC Summit and were well received by the states. Ms. Corrigan further stated she is pleased with the accomplishments of the committee.

Ms. Corrigan stated for upcoming assignments, PROC members will be visiting AICPA to start documenting their procedures. Ms. Corrigan further stated that two PROC members are also scheduled to attend an upcoming CalCPA RAB meeting and will provide feedback to the CBA.

2. Acceptance of 2012 PROC Meeting Dates.

It was moved by Mr. Elkins, seconded by Ms. Taylor and unanimously carried by those present to accept the 2012 PROC meeting dates.

3. White Paper Regarding Changes to the AICPA Standards for Performing and Reporting on Peer Reviews.

Ms. Corrigan provided an overview of the memorandum for this item **(see Attachment 12)**.

No comments were received.

4. Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews: Performing and Reporting on Reviews of Quality Control Materials.

Ms. Corrigan provided an overview of the memorandum for this item **(see Attachment 13)**.

It was moved by Mr. Driftmier, seconded by Ms. Berhow and unanimously carried by those present to approve the proposed letter in support of the current exposure draft.

It was moved by Ms. Taylor, seconded by Ms. Bell and unanimously carried by those present to assign the exposure draft to the PROC for a more in-depth analysis.

5. Conflicts of Interest Involving Members of the PROC.

Ms. Corrigan provided an overview of DCA legal counsel's analysis regarding conflicts of interest involving member of the PROC.

Ms. Corrigan stated that if any decisions involving a peer review that was conducted by the PROC member eventually come before the PROC, that PROC member would have to disqualify himself/herself from any of these issues/decisions before the PROC.

Ms. Corrigan stated the next PROC meeting is scheduled for October 27, 2011 in Northern California.

F. Enforcement Advisory Committee (EAC).

1. Report of the August 4, 2011 EAC Meeting.

Ms. Gerhardt stated that at its August meeting, 17 closed files were reviewed and the EAC concurred with staff conclusion on all 17.

Ms. Gerhardt further stated the EAC held three investigative hearings, one was closed, and two were referred to the Attorney General's Office for discipline.

Ms. Gerhardt stated the next EAC meeting is scheduled for November 3, 2011 in San Diego.

2. Acceptance of 2012 EAC Meeting Dates.

It was moved by Mr. Swartz, seconded by Ms. Taylor and unanimously carried by those present to accept the 2012 EAC meeting dates.

G. Qualifications Committee (QC).

There was no report for this item.

IX. Acceptance of Minutes

- A. Draft Minutes of the July 21, 2011 CBA Meeting.
- B. Draft Minutes of the September 1, 2011 CBA Meeting.
- C. Minutes of the May 5, 2011 EAC Meeting.
- D. Minutes of the July 8, 2011 PROC Meeting.
- E. Minutes of the August 16, 2011 ECC Meeting.

It was moved by Mr. Oldman, seconded by Mr. Ramirez and unanimously carried by those present to accept agenda items IX.A. and IX.C.-IX.E.

Agenda item IX.B. was deferred to take place at a future CBA meeting.

X. Other Business.

- A. American Institute of Certified Public Accountants (AICPA).

There was no report for this item.

- B. National Association of State Boards of Accountancy (NASBA).

1. Update on NASBA Committees.

- a. Accountancy Licensee Database Task Force.

Ms. Bowers stated that at its August meeting, the ALD Task Force discussed the recommendations from the CBA members regarding CPAVerify. Ms. Bowers stated that the launch of CPAVerify has been delayed in order to incorporate the CBA's suggestions. Ms. Bowers further stated the next ALD Task Force meeting is scheduled for October.

- b. Board Relevance & Effectiveness Committee.

There was no report for this item.

- c. Uniform Accountancy Act Committee (UAA).

Mr. Driftmier stated that after two years, the UAA has concluded its charge and finalized the issue of firm naming.

2. Proposed Responses to NASBA Regional Director's Focus Questions.

It was moved by Mr. Driftmier, seconded by Ms. Bell and unanimously carried by those present to approve the proposed responses to the Focus Questions.

C. Proposed Response to Joint AICPA and NASBA Exposure Draft Regarding Continuing Professional Education Standards.

It was moved by Mr. Driftmier, seconded by Ms. Taylor and unanimously carried by those present to approve the proposed letter regarding the Joint AICPA and NASBA Exposure Draft.

XI. Closing Business.

A. Public Comments.*

No comments were received.

B. Agenda Items for Future CBA Meetings.

Mr. Ramirez requested that the CPC consider making the eight-hour fraud CE requirement part of the 24-hour accounting and auditing requirement.

C. Press Release Focus.

Recent Press Releases.

Ms. Hersh stated the topics for consideration in post-meeting press release include the CBA's decision to move forward with a fingerprinting requirement, as well as the discussion and action regarding safe harbor.

Mr. Ramirez inquired if a press release was issued regarding the Kinde Durkee matter. Ms. Hersh stated that in addition to issuing a press release, she reached out to news organizations by phone to inform them of the action taken by the CBA and shared copies of the cease and desist order that was issued. Mr. Ramirez stated that the media coverage was great. Mr. Ramirez acknowledged Ms. Hersh for her efforts.

Adjournment.

Vice President Oldman adjourned the meeting at 3:15 p.m.

Sally Anderson, CPA, President

Leslie LaManna, CPA, Secretary-Treasurer

Veronica Daniel, Board Relations Analyst, and Patti Bowers, Executive Officer, CBA, prepared the CBA meeting minutes. If you have any questions, please call (916) 561-1718.